NEWCASTLE MUNICIPALITY

Financial statements
for the year ended 30 June 2013

General Information

Councillors	Cllr AF Rehman - Mayor
	Cllr RN Mdluli - Deputy Mayor
	Cllr MF Zikhali - Speaker
	Cllr TZ Hadebe - EXCO Member
	Cllr NP Kunene - EXCO Member
	Cllr SBM Lukhele - EXCO Member
	Cllr RB Ndima - EXCO Member
	Cllr BS Ntombela - EXCO Member
	Cllr M Shunmugam - EXCO Member
	Cllr JA Vorster - EXCO Member
	Cllr VV Bam
	Cllr MM Bhekiswayo
	Cllr VV MV Buhali
	Cllr DRF Buthelezi
	Cllr SSE Buthelezi
	Cllr EJC Cronje
	Cllr JME Damons
	Cllr CL Dube
	Cllr DX Dube
	Cllr JK Gabuza
	Cllr FP Gama
	Cllr TS Hlabisa
	Cllr MME Hlatshwayo
	Cllr SB Hlatshwayo
	Cllr I Keeka
	Cllr LG Khoza
	Cllr CB Kubheka
	Cllr S Kubheka
	Cllr HS Madonsela
	Cllr HT Malindi
	Cllr NS Matthews
	Cllr MP Mazibuko
	Cllr JS Mbatha
	Cllr ZJ Mbatha
	Cllr MN Mbokazi
	Cllr MO Mdhlalose
	Cllr CN Mkhize
	Cllr HN Mkhwanazi
	Cllr MG Mlangeni
	Cllr MS Mlangeni
	Cllr GA Mncube - MPAC Chairman
	Cllr NA Msibi
	Cllr SG Ndlovu
	Cllr ME Ngcobo
	Cllr NJ Ngobese
	Cllr CL Nhlapho
	Cllr DJZ Nkosi
	Cllr NT Ntshangase

General Information

	Cllr EM Nyembe Cllr TM Nzuze Cllr DO Shabalala Cllr DM Sibilwane Cllr SM Thwala Cllr DE Tshabalala Cllr SJ Zulu Cllr TM Zulu Cllr EM Zungu Cllr ME Zwane Cllr MM Zwane Cllr NA Zwane
Grading of local authority	7
Chief Finance Officer (CFO)	Mr M Mayisela
Accounting Officer	Mr K Masange
Registered office	27 Murchison Street Newcastle 2940
Business address	27 Murchison Street Newcastle 2940
Postal address	Private Bag x O Box 6621 Newcastle 2940
Bankers	First national Bank
Auditors	Auditor General South Africa

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The reports and statements set out below comprise the financial statements presented to the Council.:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on page 7 to 67 which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf of the municipality.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors,if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Consitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr K Masange
Accounting Officer

Newcastle Municipality

Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Other financial assets	8	6 673 997	8 301 454
Assets held for sale	9	7 632 000	-
Inventories	10	6 907 956	7 096 285
Receivables from exchange transactions	11	52 661 526	48 835 429
VAT receivable	12	28 055 748	2 320 461
Consumer debtors	13	278 382 599	398 896 637
Cash and cash equivalents	14	352 803 380	432 172 072
		733 117 206	**897 622 338**
Non-Current Assets			
Investment property	3	169 116 693	150 706 493
Property, plant and equipment	4	1 515 050 872	1 288 850 397
Intangible assets	5	913 426	637 531
Heritage assets	6	2 798 758	2 808 116
Investments in associates	7	1 009 989 327	1 004 790 533
		2 697 869 076	**2 447 793 070**
Total Assets		**3 430 986 282**	**3 345 415 408**
Liabilities			
Current Liabilities			
Current portion of long term loans	15	7 992 190	8 253 375
Finance lease obligation - current portion	16	191 531	187 533
Unspent conditional grants and receipts	17	124 992 832	78 711 629
Defined benefit plan obligations - current portion	18	3 437 863	3 586 643
Payables from exchange transactions	20	163 092 466	164 109 916
Consumer deposits	21	9 974 703	9 958 031
		309 681 585	**264 807 127**
Non-Current Liabilities			
Long term loans	15	62 868 405	60 196 100
Finance lease obligation	16	6 470	198 001
Defined benefit plan obligations	18	106 938 046	77 822 236
Non-current provision for landfill site	19	22 923 190	22 494 322
		192 736 111	**160 710 659**
Total Liabilities		**502 417 696**	**425 517 786**
Assets		3 430 986 282	3 345 415 408
Liabilities		(502 417 696)	(425 517 786)
Net Assets		**2 928 568 586**	**2 919 897 622**
Net Assets			
Reserves			
Housing Development Fund		26 548 794	24 885 398
Insurance reserve		6 804 366	6 454 794
Accumulated surplus		2 895 215 426	2 888 557 430
Total Net Assets		**2 928 568 586**	**2 919 897 622**

Newcastle Municipality
Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Fees - Advertising, Plans and Sewage blockages		1 389 843	-
Property rates	22	165 196 821	157 893 000
Rental of facilities and equipment	30	3 677 190	5 703 174
Service charges	23	718 417 674	683 860 407
Landfill site provision adjustment		-	50 765 425
Other income		3 544 770	803 643
Sundry Sales		633 283	692 338
Fee income		5 847 959	5 029 420
Doubtful debts provision adjustment		-	137 038 490
Interest received		94 392 883	23 096 218
Government grants & subsidies	24	367 927 392	353 567 491
Fines		2 121 492	1 572 104
Total revenue		**1 363 149 307**	**1 420 021 710**
Expenditure			
Employee related costs	26	251 156 745	230 600 985
Remuneration of councillors	27	17 224 741	16 193 189
Depreciation and amortisation		255 512 963	219 845 295
Impairment loss		26 892 887	334 836
Finance costs		7 299 937	6 650 041
Debt impairment		60 161 307	-
Collection costs		10 568 640	8 534 242
Repairs and maintenance		70 121 305	71 410 980
Bulk purchases	32	383 643 232	349 411 144
Contracted services	31	26 091 088	17 706 106
General Expenses	25	183 462 495	152 481 330
Total expenditure		**1 292 135 340**	**1 073 168 148**
		-	-
Total revenue		1 363 149 307	1 420 021 710
Total expenditure		(1 292 135 340)	(1 073 168 148)
Operating surplus		**71 013 967**	**346 853 562**
Share of deficit of an associate		(113 876 919)	(112 405 248)
Loss on sale of assets		(3 834 162)	-
Fair value adjustments		-	(25 901 407)
		(117 711 081)	**(138 306 655)**
(Deficit) surplus before taxation		(46 697 114)	208 546 907
Taxation		-	-
(Deficit) surplus for the year		**(46 697 114)**	**208 546 907**
Attributable to:			
Owners of the controlling entity		(46 697 114)	208 546 907

Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2011	**23 853 127**	**6 403 575**	**30 256 702**	**2 680 010 523**	**2 710 267 225**
Changes in net assets					
Transfer to Insurance Reserve	-	51 219	51 219	-	51 219
Transfer to Housing Development Fund	1 032 271	-	1 032 271	-	1 032 271
Net income (losses) recognised directly in net assets	1 032 271	51 219	1 083 490	-	1 083 490
Deficit for the year (restated)	-	-	-	208 546 907	208 546 907
Total recognised income and expenses for the year	1 032 271	51 219	1 083 490	208 546 907	209 630 397
Total changes	1 032 271	51 219	1 083 490	208 546 907	209 630 397
Opening balance as previously reported	24 885 398	6 454 794	31 340 192	2 905 060 438	2 936 400 630
Adjustments					
Prior year adjustments	-	-	-	(16 503 008)	(16 503 008)
Balance at 01 July 2012 as restated	**24 885 398**	**6 454 794**	**31 340 192**	**2 888 557 430**	**2 919 897 622**
Changes in net assets					
Surplus for the year	-	-	-	(46 697 114)	(46 697 114)
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	-	-	-	53 355 110	53 355 110
Transfer to Housing Development Fund	1 663 396	-	1 663 396	-	1 663 396
Transfer to Insurance Reserve	-	349 572	349 572	-	349 572
Total changes	1 663 396	349 572	2 012 968	6 657 996	8 670 964
Balance at 30 June 2013	**26 548 794**	**6 804 366**	**33 353 160**	**2 895 215 426**	**2 928 568 586**

The Annual Financial Statements for the year ended 30 June 2012 was qualified on the basis of a R187 853 665 that was passed to Accumulated Surplus. During the current year the Municipality submitted supporting information to the Auditor General of South Africa. This matter is currently being audited and the Municipality awaits the outcome of this.

Newcastle Municipality
Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		993 648 700	1 135 253 172
Grants		367 927 392	353 567 491
Interest received		94 392 883	23 096 218
Other receipts		9 392 729	5 833 063
Cash generated from operations	33	1 465 361 704	1 517 749 944
Payments			
Employee costs		(268 381 486)	(246 794 173)
Suppliers and other payments		(670 872 024)	(885 578 811)
Finance costs		(7 299 937)	(6 650 041)
		(946 553 447)	(1 139 023 025)
Net cash flows from operating activities	33	**518 808 257**	**378 726 918**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(538 794 201)	(271 348 392)
Proceeds from sale of property, plant and equipment	4	651 912	-
Purchase of other intangible assets	5	(554 130)	(7 235)
Purchases of heritage assets	6	(47 342)	(1 755)
Movement in loans and receivables		1 627 457	(1 735 137)
Transfer of property, plant and equipment		-	70 719 436
Correction of property, plant and equipment		-	42 107 670
Contributions to investments in associates		(119 075 680)	(136 350 129)
Prior year adjustments		55 362 580	(40 633 659)
Net cash flows from investing activities		**(600 829 404)**	**(337 650 196)**
Cash flows from financing activities			
Proceeds from current portion of long term loans		-	-
Repayment of current portion of long term loans		2 411 120	9 182 059
Movement in non-current provision for landfill site		428 868	-
Movement in finance lease obligation		(187 533)	385 534
Net cash flows from financing activities		**2 652 455**	**9 567 593**
Net increase/(decrease) in cash and cash equivalents		**(79 368 692)**	**50 644 315**
Cash and cash equivalents at the beginning of the year		432 172 072	381 527 757
Cash and cash equivalents at the end of the year	14	**352 803 380**	**432 172 072**

Newcastle Municipality

Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	725 332 593	-	**725 332 593**	718 417 674	**(6 914 919)**	
Fees - Advertising, Plans and Sewage Blockages	8 177	-	**8 177**	1 389 843	**1 381 666**	
Rental of facilities and equipment	5 347 738	-	**5 347 738**	3 677 190	**(1 670 548)**	
Other income	489 964	-	**489 964**	3 544 770	**3 054 806**	
Sundry Sales	994 620	-	**994 620**	633 283	**(361 337)**	
Fee income	3 755 005	-	**3 755 005**	5 847 959	**2 092 954**	
Interest received - investment	86 135 056	-	**86 135 056**	94 392 883	**8 257 827**	
Total revenue from exchange transactions	**822 063 153**	**-**	**822 063 153**	**827 903 602**	**5 840 449**	
Revenue from non-exchange transactions						
Property rates	173 045 000	-	**173 045 000**	165 196 821	**(7 848 179)**	
Government grants & subsidies	354 123 302	-	**354 123 302**	367 927 392	**13 804 090**	
Fines	2 336 335	-	**2 336 335**	2 121 492	**(214 843)**	
Total revenue from non-exchange transactions	**529 504 637**	**-**	**529 504 637**	**535 245 705**	**5 741 068**	
'Total revenue from exchange transactions'	822 063 153	-	**822 063 153**	827 903 602	**5 840 449**	
'Total revenue from non-exchange transactions'	529 504 637	-	**529 504 637**	535 245 705	**5 741 068**	
Total revenue	**1 351 567 790**	**-**	**1 351 567 790**	**1 363 149 307**	**11 581 517**	
Expenditure						
Personnel	(176 689 450)	-	**(176 689 450)**	(251 156 745)	**(74 467 295)**	
Remuneration of councillors	(13 782 094)	-	**(13 782 094)**	(17 224 741)	**(3 442 647)**	
Depreciation and amortisation	(229 523 943)	-	**(229 523 943)**	(255 512 963)	**(25 989 020)**	
Impairment loss/ Reversal of impairments	-	-	**-**	(26 892 887)	**(26 892 887)**	
Finance costs	(9 102 862)	-	**(9 102 862)**	(7 299 937)	**1 802 925**	
Debt impairment	(83 831 067)	-	**(83 831 067)**	(60 161 307)	**23 669 760**	
Collection costs	(10 027 133)	-	**(10 027 133)**	(10 568 640)	**(541 507)**	
Repairs and maintenance	(86 525 978)	-	**(86 525 978)**	(70 121 305)	**16 404 673**	
Bulk purchases	(390 299 442)	-	**(390 299 442)**	(383 643 232)	**6 656 210**	
Contracted Services	(26 928 307)	-	**(26 928 307)**	(26 091 088)	**837 219**	
General Expenses	(355 276 646)	-	**(355 276 646)**	(183 462 495)	**171 814 151**	
Total expenditure	**(1 381 986 922)**	**-**	**(1 381 986 922)**	**(1 292 135 340)**	**89 851 582**	
Share of deficit in associate	-	-	**-**	(113 876 919)	**(113 876 919)**	
Loss on sale of assets	-	-	**-**	(3 834 162)	**(3 834 162)**	
	-	**-**	**-**	**(117 711 081)**	**(117 711 081)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Items after income and expenses	-	-	-	(117 711 081)	**(117 711 081)**	
Deficit before taxation	**(30 419 132)**	**-**	**(30 419 132)**	**(46 697 114)**	**(16 277 982)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(30 419 132)**	**-**	**(30 419 132)**	**(46 697 114)**	**(16 277 982)**	

Newcastle Municipality

Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Total assets						
Current Assets						
Inventories	5 978 000	-	**5 978 000**	6 907 956	**929 956**	
Other financial assets	-	-	**-**	6 673 997	**6 673 997**	
Receivables from exchange transactions	106 290 000	-	**106 290 000**	52 661 526	**(53 628 474)**	
Current portion of trade receivables	27 390 000	-	**27 390 000**	-	**(27 390 000)**	
VAT receivable	-	-	**-**	28 055 748	**28 055 748**	
Consumer debtors	400 153 000	-	**400 153 000**	278 382 599	**(121 770 401)**	
Assets held for sale	-	-	**-**	7 632 000	**7 632 000**	
Cash and cash equivalents	416 432 000	-	**416 432 000**	352 803 380	**(63 628 620)**	
	956 243 000	**-**	**956 243 000**	**733 117 206**	**(223 125 794)**	
Non-Current Assets						
Investment property	176 608 000	-	**176 608 000**	169 116 693	**(7 491 307)**	
Property, plant and equipment	1 181 420 000	-	**1 181 420 000**	1 515 050 872	**333 630 872**	
Intangible assets	701 000	-	**701 000**	913 426	**212 426**	
Heritage assets	-	-	**-**	2 798 758	**2 798 758**	
Investments in associates	980 846 000	-	**980 846 000**	1 009 989 327	**29 143 327**	
Other financial assets	2 130 000	-	**2 130 000**	-	**(2 130 000)**	
	2 341 705 000	**-**	**2 341 705 000**	**2 697 869 076**	**356 164 076**	
Non-Current Assets	956 243 000	-	**956 243 000**	733 117 206	**(223 125 794)**	
Current Assets	2 341 705 000	-	**2 341 705 000**	2 697 869 076	**356 164 076**	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	**-**	-	**-**	
Total Assets	**3 297 948 000**	**-**	**3 297 948 000**	**3 430 986 282**	**133 038 282**	
Liabilities						
Current Liabilities						
Current portion of long term loans	-	-	**-**	7 992 190	**7 992 190**	
Finance lease obligation	-	-	**-**	191 531	**191 531**	
Payables from exchange transactions	273 291 000	-	**273 291 000**	163 092 466	**(110 198 534)**	
Consumer deposits	9 983 000	-	**9 983 000**	9 974 703	**(8 297)**	
Unspent conditional grants and receipts	-	-	**-**	124 992 832	**124 992 832**	
Defined benefit plan obligations	-	-	**-**	3 437 863	**3 437 863**	
Provisions	5 323 000	-	**5 323 000**	-	**(5 323 000)**	
Bank overdraft	9 219 000	-	**9 219 000**	-	**(9 219 000)**	
	297 816 000	**-**	**297 816 000**	**309 681 585**	**11 865 585**	
Non-Current Liabilities						
Current portion of long term loans	161 518 000	-	**161 518 000**	62 868 405	**(98 649 595)**	
Finance lease obligation	-	-	**-**	6 470	**6 470**	
Defined benefit plan obligations	-	-	**-**	106 938 046	**106 938 046**	
Non-current provision for landfill site	119 725 000	-	**119 725 000**	22 923 190	**(96 801 810)**	

Newcastle Municipality

Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	281 243 000	**-**	**281 243 000**	**192 736 111**	**(88 506 889)**	
	297 816 000	-	**297 816 000**	309 681 585	**11 865 585**	
	281 243 000	-	**281 243 000**	192 736 111	**(88 506 889)**	
	-	-	**-**	-	**-**	
Total Liabilities	**579 059 000**	**-**	**579 059 000**	**502 417 696**	**(76 641 304)**	
Assets	3 297 948 000	-	**3 297 948 000**	3 430 986 282	**133 038 282**	
Liabilities	(579 059 000)	-	**(579 059 000)**	(502 417 696)	**76 641 304**	
Net Assets	**2 718 889 000**	**-**	**2 718 889 000**	**2 928 568 586**	**209 679 586**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Housing Development Fund	-	-	**-**	26 548 794	**26 548 794**	
Insurance reserve	-	-	**-**	6 804 366	**6 804 366**	
Accumulated surplus	2 718 889 000	-	**2 718 889 000**	2 895 215 426	**176 326 426**	
Total Net Assets	**2 718 889 000**	**-**	**2 718 889 000**	**2 928 568 586**	**209 679 586**	

Newcastle Municipality

Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	788 630 000	14 000 000	**802 630 000**	993 648 700	**191 018 700**	
Grants	278 930 000	(41 449 000)	**237 481 000**	367 927 392	**130 446 392**	
Grants - capital	112 234 000	-	**112 234 000**	-	**(112 234 000)**	
Interest	16 135 000	-	**16 135 000**	94 392 883	**78 257 883**	
Other income	-	-	**-**	9 392 729	**9 392 729**	
	1 195 929 000	**(27 449 000)**	**1 168 480 000**	**1 465 361 704**	**296 881 704**	
Payments						
Employee costs	-	-	**-**	(268 381 486)	**(268 381 486)**	
Suppliers and employees	(880 658 000)	-	**(880 658 000)**	(670 872 024)	**209 785 976**	
Finance costs	(14 468 000)	-	**(14 468 000)**	(7 299 937)	**7 168 063**	
	(895 126 000)	**-**	**(895 126 000)**	**(946 553 447)**	**(51 427 447)**	
Total receipts	1 195 929 000	(27 449 000)	**1 168 480 000**	1 465 361 704	**296 881 704**	
Total payments	(895 126 000)	-	**(895 126 000)**	(946 553 447)	**(51 427 447)**	
Net cash flows from operating activities	**300 803 000**	**(27 449 000)**	**273 354 000**	**518 808 257**	**245 454 257**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(400 895 000)	72 818 000	**(328 077 000)**	(538 794 201)	**(210 717 201)**	
Proceeds from sale of property, plant and equipment	-	-	**-**	651 912	**651 912**	
Purchase of other intangible assets	-	-	**-**	(554 130)	**(554 130)**	
Purchases of heritage assets	-	-	**-**	(47 342)	**(47 342)**	
Decrease in non current receivables	14 319 000	-	**14 319 000**	-	**(14 319 000)**	
Increase in non-current investments	(14 078 000)	-	**(14 078 000)**	-	**14 078 000**	
Movement of loans	-	-	**-**	1 627 457	**1 627 457**	
Contributions to investments in associates	-	-	**-**	(119 075 680)	**(119 075 680)**	
Prior year adjustments	-	-	**-**	55 362 580	**55 362 580**	
Net cash flows from investing activities	**(400 654 000)**	**72 818 000**	**(327 836 000)**	**(600 829 404)**	**(272 993 404)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash flows from financing activities						
Proceeds from current portion of long term loans	113 000 000	-	**-**	2 411 120	**2 411 120**	
Movement in non-current provsion for landfill site	-	-	**-**	428 868	**428 868**	
Movement in finance lease obligation	-	-	**-**	(187 533)	**(187 533)**	
Repayment of borrowing	(27 219 000)	-	**-**	-	**-**	
Consumer deposits	(55 000)	-	**-**	-	**-**	
Net cash flows from financing activities	**85 726 000**	**-**	**85 726 000**	**2 652 455**	**2 652 455**	
Net increase/(decrease) in cash and cash equivalents	31 244 000	45 369 000	**31 244 000**	(79 368 692)	**(24 886 692)**	
Cash and cash equivalents at the beginning of the year	432 296 000	-	**432 296 000**	432 172 072	**(123 928)**	
Cash and cash equivalents at the end of the year	**463 540 000**	**45 369 000**	**463 540 000**	**352 803 380**	**(25 010 620)**	

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Components of assets that are significant in relation to the whole asset and have different useful lives are depreciated separately. Land is not depreciated as it i deemed to have an indefinite useful life.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	80 years
Other	
• Honey sucker tanker	10 years
• Bins and containers	10 years
• Emergency equipment	10 years
• Motor vehicles	5 years
• Office equipment	7 years
• Furniture and fittings	7 years
• Plant and equipment	7 years
• Landfill site structure	55 years
• Building airconditioning system	5 years
• Computer equipment	5 years
• Domestic equipment	5 years
• Network	10 years

Accounting Policies

1.2 Property, plant and equipment (continued)

Infrastructure

• Roads and paving	80 years
• Bridges	80 years
• Storm water	50 years
• Gravel	10 years
• Kerb and channels	50 years
• Asphalt Surface	20 years
• Asphalt layer	50 years
• Substations and transformers	30 years
• Street lighting	20 years
• Pedestrian path	30 years
• Traffic signs	15 years
• Traffic Island	50 years
• Traffic lights	20 years
• Reservoirs	50 years
• Water pump station	55 years
• Bulk sewer pipeline	50 years
• Sewerage pump station	55 years
• Poles,cables and lights	45 years
• Airport	80 years
Community	
• Clinic and health facilities	30 years
• Stadiums	80 years
• Security system	5 years
• Hawkers shelters	10 years
• Car wash bays	10 years
• Libraries	80 years
• Parks and gardens	80 years
• Cemeteries	80 years
• Community centres	80 years
• Learning,training,support library	10 years
Heritage	
• Buildings	80 years
• Museums	80 years

1.3 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if:
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprise direct labour, materials and overheads, if appropriate.

When assets under construction is completed and certificates of completion issued, they are transferred to the appropriate asset class.

Asset under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in a manner intended by management.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

1.4 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

For an intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Accounting Policies

1.5 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that the assets may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Accounting Policies

1.6 Investments in associates

An associate is an entity in whch the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.

The municipality accounts for investment in associate under the equity method in the financial statements. The equity method involves recognising the investment initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statement of Financial Performance presents the investors share of the associate's surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statments for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments to the effect of any significant events or transactions between the investor and the associate that occur between the associate and the municipality . Adjustments are made to ensure consistency between the accounting policies of the municipality and associate.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.7 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.7 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

1.9 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Short-term employee benefits

Short term employee benefits encompasses all those benefits that become payable in the short term i.e within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses. Short term employee benefits are recognised in the Statement of financial performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related services or specific event occurs.

Defined contribution plans

The municipality contributes to the Municipal Pension Fund, which is classified as a defined contribution plan. Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Other post retirement obligations

The entity provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Accounting Policies

1.13 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

1.13 Provisions and contingencies (continued)

- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.14 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.15 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

Accounting Policies

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.23 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Currency of presentation

These financial statements are presented in South African Rand.

1.25 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.29 Related Party Transactions

Waste Works Newcastle

The financial statements of Waste Works Newcastle have not been consolidated pending the liquidation process.

Councillors and Senior Management

Income from service rendered has not been calculated, however the only income received from the Councillors and Senior management is in terms of the approved tariff charges in line with normal service delivery, and occur on an arms length basis.

1.30 Capital Commitments

Capital commitments are approved and contracted for when a tender is awarded to a contractor and a valid contract has been signed by both the Accounting Officer and contractor.

Capital commitmtnts are approved but not yet contracted for are those capital projects are appropriated in the capital budget and which are approved by council. These are municipal capital projects for which the tendering process has not commenced and therefore not yet allocated to a contractor through competitive bidding process

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012
• GRAP 103: Heritage Assets	01 April 2012
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012
• GRAP 26: Impairment of cash-generating assets	01 April 2012
• GRAP 104: Financial Instruments	01 April 2012

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	01 April 2013
• GRAP 25: Employee benefits	01 April 2013
• GRAP 105: Transfers of functions between entities under common control	01 April 2014
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014
• GRAP 107: Mergers	01 April 2014
• GRAP 20: Related parties	01 April 2013
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013
• GRAP 12 (as revised 2012): Inventories	01 April 2013
• GRAP 13 (as revised 2012): Leases	01 April 2013
• GRAP 16 (as revised 2012): Investment Property	01 April 2013
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013
• IGRAP16: Intangible assets website costs	01 April 2013
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013

Figures in Rand	2013	2012

3. Investment property

	2013			2012		
	Cost / Valuation	**Fair Value Adjustment**	**Carrying value**	**Cost / Valuation**	**Fair Value Adjustment**	**Carrying value**
Investment property	169 116 693	-	169 116 693	176 607 900	(25 901 407)	150 706 493

Reconciliation of investment property - 2013

	Opening balance	Disposals	Transfers	Total
Investment property	150 706 493	(3 870 000)	22 280 200	169 116 693

Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	176 607 900	(25 901 407)	150 706 493

The Municipality has not pledged Investment Properties as security. A detailed register of Investment Properties held by the Municipality is available for inspection at the Muncipal Offices, situated at 37 Murchinson Street.

The value of municipal properties is R169 116 693 (2012: R176 607 900) and was determined by the professional property valuers, The Valuator. The Valuator are not connected to the Municipality and have recent experience in location and category of the investment properties being valued. The valuation was based on open market values of similar properties sold in the area. Where open market values could not be obtained, a depreciated replacement cost was used and deemed to be fair value of the affected properties. For Municipal properties which comprise of cemeteries, roads, parking areas, public servitudes and small remainders of land, a nominal value was applied and added to the depreciated replacement cost value. For Municipal properties which have been leased at market related rentals at the date of valuation, the return on investment valuation method was used. These assumptions are based on current market conditions. The effective date of the valuation was 30 June 2012.

Fair value adjustment	-	25 901 407

Rental

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	3 677 189	5 703 174

4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	62 677 394	(5 730 797)	56 946 597	103 725 636	-	103 725 636
Buildings	71 913 318	(26 580 410)	45 332 908	113 291 725	(46 594 674)	66 697 051
Other assets	115 587 966	(49 019 356)	66 568 610	78 136 701	(32 038 190)	46 098 511
Infrastructure	1 799 963 776	(889 571 844)	910 391 932	1 504 352 499	(632 576 984)	871 775 515
Community	93 571 188	(19 851 802)	73 719 386	4 652 781	(77 999)	4 574 782
Capital Work in Progress	362 202 313	(300 000)	361 902 313	195 895 224	(300 000)	195 595 224
Finance lease assets	401 360	(212 234)	189 126	401 360	(17 682)	383 678
Total	**2 506 317 315**	**(991 266 443)**	**1 515 050 872**	**2 000 455 926**	**(711 605 529)**	**1 288 850 397**

Notes to the Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	103 725 636	3 065 958	-	(44 114 200)	(5 730 797)	-	56 946 597
Buildings	66 697 051	28 422 888	-	(40 447 996)	(1 904 449)	(7 434 586)	45 332 908
Other assets	46 098 511	17 564 675	-	13 871 062	(10 965 638)	-	66 568 610
Infrastructure	871 775 515	282 142 104	(598 072)	8 935 640	(233 279 141)	(18 584 114)	910 391 932
Community	4 574 782	41 291 487	-	31 807 124	(3 136 520)	(817 487)	73 719 386
Capital Work in Progress	195 595 224	166 307 089	-	-	-	-	361 902 313
Finance lease assets	383 678	-	-	-	(194 552)	-	189 126
	1 288 850 397	**538 794 201**	**(598 072)**	**(29 948 370)**	**(255 211 097)**	**(26 836 187)**	**1 515 050 872**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Correction of error	Depreciation	Impairment loss	Total
Land	78 090 000	25 135 054	-	500 582	-	-	103 725 636
Buildings	48 770 130	18 116 513	-	1 272 403	(1 461 995)	-	66 697 051
Other assets	53 489 107	5 933 538	-	(4 175 907)	(9 148 227)	-	46 098 511
Infrastructure	908 155 882	51 798 191	-	120 999 982	(209 178 540)	-	871 775 515
Community	505 858	-	-	4 071 966	(3 042)	-	4 574 782
Capital Work in Progress	261 026 260	170 365 096	(70 719 436)	(164 776 696)	-	(300 000)	195 595 224
Financed lease assets	401 360	-	-	-	(17 682)	-	383 678
	1 350 438 597	**271 348 392**	**(70 719 436)**	**(42 107 670)**	**(219 809 486)**	**(300 000)**	**1 288 850 397**

Pledged as security

There were no assets pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	1 378 195	(464 769)	913 426	800 460	(162 929)	637 531

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Transfers**	**Amortisation**	**Total**
Computer software	637 531	554 130	18 168	(296 403)	913 426

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	700 516	7 235	(70 220)	637 531

6. Heritage assets

	2013			2012		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Museums, painting and artifacts	2 855 458	(56 700)	2 798 758	2 808 116	-	2 808 116

Reconciliation of heritage assets 2013

	Opening balance	**Additions**	**Impairment losses recognised**	**Total**
Museums, painting and artifacts	2 808 116	47 342	(56 700)	2 798 758

Reconciliation of heritage assets 2012

	Opening balance	**Additions**	**Total**
Museums, painting and artifacts	2 806 361	1 755	2 808 116

7. Investments in associates

Name of entity	**% holding 2013**	**% holding 2012**	**Carrying amount 2013**	**Carrying amount 2012**
Uthukela Water (Pty) Ltd	34.00 %	34.00 %	1 009 989 327	1 004 790 533

The municipality has 34% in uThukela Water (Pty) Ltd (a joint venture established in 2004). This investment is disclosed in these financial statements using the equity method as described in GRAP 7 as follows:

Notes to the Financial Statements

Figures in Rand	2013	2012

7. Investments in associates (continued)

Opening balance	1 004 790 566	980 845 685
Current year contributions	119 075 680	114 495 846
Share in retained profit/losses on the equity method	(113 876 919)	(112 405 248)
Implementation agent - Water projects	-	21 854 283
	1 009 989 327	**1 004 790 566**
Equity	(2 402 753 036)	(2 257 353 039)
Liabilities	(227 588 372)	(240 777 893)
	(2 630 341 408)	**(2 498 130 932)**
Total Assets	2 630 341 408	2 498 130 931

No loans were made to or received from associate. Newcastle Municipality has not committed funds for future capital expenditure.

No shares were sold during the year.There were no adjustments relating to the effect of different accounting policies.

There were no events or transactions which occurred after the associate's reporting date which could materially affect the financial position or operating performance of that associates for the subsequent accounting period.

8. Other financial assets

At amortised cost		
Uthukela Water (Pty) Ltd debtor	4 883 680	4 883 680
Stand debtors	1 790 317	3 417 774
	6 673 997	**8 301 454**
	-	-
	-	-
	6 673 997	8 301 454
Current assets		
At amortised cost	6 673 997	8 301 454
Non-current assets	-	-
Current assets	6 673 997	8 301 454

9. Asset held for sale

Land	7 632 000	-

10. Inventories

Consumable stores	6 907 956	7 096 285

Inventory is stated at the lower cost or current replacement value.

Inventory pledged as security

No inventory has been pledged as security to date in the current accounting period.

Figures in Rand	2013	2012

11. Receivables from exchange transactions

Deposits	94 528	94 528
Sundry debtors	50 021 952	46 136 683
Insurance debtor	2 545 046	2 604 218
	52 661 526	**48 835 429**

12. VAT receivable

VAT	28 055 748	2 320 461

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

13. Consumer debtors

Gross balances		
Rates	82 275 925	96 090 040
Electricity	59 399 837	58 820 337
Water	115 370 479	166 309 118
Sewerage	104 498 904	84 431 783
Refuse	47 480 970	40 613 584
Other Consumer Debtors	60 011 067	3 495 213
Sundry services	313 214 620	392 844 460
	782 251 802	**842 604 535**
Less: Allowance for impairment		
Rates	(446 844 495)	(51 404 166)
Electricity	(10 161 532)	(14 528 632)
Water	14 223 695	(90 702 861)
Sewerage	(23 345 605)	(45 926 787)
Refuse	(9 639 188)	(21 835 978)
Other consumer debtors	(37 972 867)	(1 808 509)
Sundry services	9 870 789	(217 500 965)
	(503 869 203)	**(443 707 898)**
Net balance		
Rates	(364 568 570)	44 685 874
Electricity	49 238 305	44 291 705
Water	129 594 174	75 606 257
Fair value adjustment to consumer debtors	-	-
Sewerage	81 153 299	38 504 996
Refuse	37 841 782	18 777 606
Housing rental	22 038 200	1 686 704
Sundry services	323 085 409	175 343 495
	278 382 599	**398 896 637**
Rates		
Current (0 -30 days)	11 190 256	11 099 462
31 - 60 days	2 907 072	5 256 640
61 - 90 days	2 649 434	4 903 205
91 - 120 days	2 351 619	4 865 482
121 - 150 days	2 279 376	4 619 394
> 150 days	60 898 168	65 345 857
	82 275 925	**96 090 040**

Notes to the Financial Statements

Figures in Rand	2013	2012

13. Consumer debtors (continued)

Electricity, Water, Sewarage and Refuse

Current (0 -30 days)	60 380 970	65 752 606
31 - 60 days	10 835 344	16 251 892
61 - 90 days	10 161 520	14 508 135
91 - 120 days	8 673 148	13 314 002
121 - 150 days	8 267 902	11 723 900
> 150 days	228 431 306	228 624 286
	326 750 190	**350 174 821**

Sundries

Current (0 -30 days)	(1 937 962)	4 731 055
31 - 60 days	3 587 610	2 624 960
61 - 90 days	1 646 363	2 456 152
91 - 120 days	1 437 257	2 021 883
121 - 150 days	1 413 586	4 571 193
> 150 days	307 067 764	376 439 218
	313 214 618	**392 844 461**

Other

Current (0 -30 days)	7 413 695	492 678
31 - 60 days	5 173 140	152 630
61 - 90 days	5 112 954	143 295
91 - 120 days	4 820 519	235 727
121 - 150 days	4 910 336	168 912
> 150 days	32 580 421	2 301 971
	60 011 065	**3 495 213**

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	29 076 736	69 629 699
31 - 60 days	18 244 092	16 486 283
61 - 90 days	15 731 007	16 352 036
91 - 120 days	15 025 660	17 682 169
121 - 150 days	15 141 990	15 185 722
> 150 days	591 439 284	583 587 124
	684 658 769	718 923 033
Less: Allowance for impairment	(437 894 876)	(385 000 670)
	246 763 893	**333 922 363**

Industrial/ commercial

Current (0 -30 days)	33 336 950	34 770 885
31 - 60 days	3 651 974	5 212 982
61 - 90 days	3 186 648	3 588 421
91 - 120 days	1 887 979	3 212 743
121 - 150 days	1 381 542	3 154 413
> 150 days	38 751 301	50 903 655
	82 196 394	100 843 099
Less: Allowance for impairment	(56 126 926)	(46 017 815)
	26 069 468	**54 825 284**

National and provincial government

Current (0 -30 days)	(941 073)	1 644 132
31 - 60 days	615 896	363 899
61 - 90 days	663 918	404 945

Notes to the Financial Statements

Figures in Rand	2013	2012

13. Consumer debtors (continued)

91 - 120 days	382 990	316 935
121 - 150 days	356 381	216 435
> 150 days	14 318 527	19 892 058
	15 396 639	22 838 404
Less: Allowance for impairment	(9 847 401)	(12 689 411)
	5 549 238	**10 148 993**

Reconciliation of Consumer Debtors

Gross Amount	782 251 802	842 604 535
Less: Debt impairment provision	(503 869 202)	(443 707 898)
	278 382 600	**398 896 637**

Reconciliation of allowance for impairment

Balance at beginning of the year	(443 707 898)	(611 214 283)
Contributions to allowance	(60 161 305)	-
Reversal of allowance	-	167 506 385
	(503 869 203)	**(443 707 898)**

The carrying amounts of trade and other receivables approximate fair values. The discount rate used was based on Treasury Bonds.

Credit quality of consumer debtors
Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis and characteristics like collection levels are considered during evaluation for impairment. The credit quality of trade receivables that are neither past due nor impaired are considered fair by the municipality taking into account the historical information available. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

14. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and other short-term highly liquid investments that are readily covertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially measured at amortised cost, using the effective interest rate method.

Cash on hand	1 013 437	1 065 302
Bank balances	5 011 194	18 853 690
Short-term deposits	346 778 749	412 253 080
	352 803 380	**432 172 072**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2013	**30 June 2012**	**30 June 2013**	**30 June 2012**
FNB - 53140035974	3 402 192	14 253 838	5 011 194	18 853 690
FNB - 53140063149	1 558 560	4 940 671	-	-
Total	**4 960 752**	**19 194 509**	**5 011 194**	**18 853 690**

Money Markets	78 100 011	74 931 166
Call Investments	268 736 573	337 321 912

Figures in Rand	2013	2012

14. Cash and cash equivalents (continued)

	346 836 584	**412 253 078**

Call Investments

FNB - 62104301388	1 484 953	1 500 000
FNB - 62351037695	5 000 000	5 000 000
FNB - 71331485360	-	12 213 113
FNB - 62336749497	5 380 074	-
FNB -71351217206	51 800 000	51 800 000
Nedbank - 7648555441/09	-	9 500 000
Nedbank - 7648555441/044	47 900 000	-
Nedbank - 7648555441/10	234 586	225 906
Nedbank - 7648555441/01	4 396 661	4 233 989
Nedbank - 7648555441/013	187 555	180 616
Nedbank -7648555441/037	-	16 081 101
Nedbank -7648555441/041	-	47 900 000
ABSA - 2071813898	-	15 000 000
ABSA - 9112678241	4 193 857	4 028 032
ABSA - 2072185521	51 100 000	51 100 000
ABSA - 9123294032	161 479	155 094
ABSA -2071813898	-	16 230 231
Standard Bank - 68450354/011	5 000 000	5 000 000
Standard Bank - 68450354/015	8 086 231	7 728 009
Standard Bank - 68450354/016	26 044 881	24 889 730
Standard Bank - 68450354/001	4 116 023	3 933 682
Standard Bank - 68450354/029	-	6 975 555
Standard Bank - 68450354/030	2 500 000	2 500 000
Standard Bank - 68450354/009	2 273 026	2 273 026
Standard Bank - 68450354/008	77 248	73 828
Standard Bank - 68450354/028	-	48 800 000
Standard Bank - 428801730/002	48 800 000	-
	268 736 574	**337 321 912**

Money market

Sanlam 1246107	49 012 284	46 822 968
FNB - 62132797088	29 087 727	28 108 198
	78 100 011	**74 931 166**

Interest Income

Interest on Bank	3 327 361	7 042 014
Interest on Investment Account	18 787 600	16 054 894
	22 114 961	**23 096 908**

15. Long term loans

At amortised cost

Annuity loans	70 860 595	68 449 475

The municipality received fifteen (15) loans from Development Bank of Southern Africa (DBSA) to fund infrastructure assets. Each loan has a fixed interest rate however, all loans have different interest rates. Interest rates are between 9% and 12% per annum, payable quarterly.

Long term loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Non-current liabilities

At amortised cost	62 868 405	60 196 100

Notes to the Financial Statements

Figures in Rand	2013	2012
Current liabilities		
At amortised cost	7 992 190	8 253 375

16. Finance lease obligation

Minimum lease payments due		
- within one year	203 064	220 704
- in second to fifth year inclusive	6 768	209 832
	209 832	430 536
less: future finance charges	(11 831)	(45 002)
Present value of minimum lease payments	**198 001**	**385 534**

Present value of minimum lease payments due		
- within one year	191 531	187 533
- in second to fifth year inclusive	6 470	198 001
	198 001	**385 534**

Non-current liabilities	6 470	198 001
Current liabilities	191 531	187 533
	198 001	**385 534**

The average lease term is 36 months and the effective borrowing rate is 11% (2012: 15%). Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructure grant	23 276 840	-
Construction of Madadeni 4 subsidy	7 000 000	7 000 000
Municipal Systems Improvement Grant	2 229 629	1 429 629
Financial Management Grant	1 181 255	703 243
Skills Development Grant	249 209	-
Expanded Public Works Programme Incentives	26 465	2 974 095
Environmental Management Framework	1 353 500	1 353 500
Neighbourhood Development Partnership	16 104 934	12 325 792
Electrification Grant	10 043 459	4 310 149
KwaMathukuza Housing Project	14 065 853	13 555 016
JBC Housing Project	4 500 000	4 500 000
Water services operating and masification services	13 450 945	7 032 652
Other government grants and subsidies	31 510 743	23 527 553
	124 992 832	**78 711 629**

The municipality is in the process of identifying conditional grants with no repayment terms. Once the adequate information has been obtained these grants will be recognised as revenue.

The nature and extent of government grants recognised in the financial statements is an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Figures in Rand	2013	2012

17. Unspent conditional grants and receipts (continued)

See Note 24 for reconciliation of grants from National/Provincial Government.These amounts are invested in a ring-fenced investment until utilised.

18. Employee benefit obligations

Reconciliation of defined benefit plan obligations - 2013

	Opening Balance	Current service costs	Contributions paid	Acturial loss/(gain)	Interest costs	Total
Employee benefits	81 408 879	4 785 416	(3 586 743)	20 964 933	6 803 424	110 375 909

Reconciliation of defined benefit plan obligations - 2012

	Opening Balance	Current service costs	Contributions paid	Interest cost	Total
Employee Benefits	74 282 830	4 416 432	(3 475 523)	6 185 140	81 408 879

	2013	2012
Non-current liabilities	106 938 046	77 822 236
Current liabilities	3 437 863	3 586 643
	110 375 909	**81 408 879**

	2013	2012
Health Care Benefit	96 855 287	67 383 722
Long service awards	13 520 622	14 025 157
	110 375 909	**81 408 879**

Health Care Benefits	2013	2012
Balance at beginning of the year	67 383 722	61 296 746
Current Service Costs	3 029 627	2 787 255
Contributions paid	(2 089 992)	(1 947 564)
Acturial (Gain)/Loss	22 761 401	-
Interest Cost	5 770 529	5 247 285
	96 855 287	**67 383 722**

Net expenses recognised in Statement of Financial Performance - Health care benefit	2013	2012
Current Service costs	3 029 627	2 787 255
Contributions paid	(2 089 992)	(1 947 564)
Acturial Loss/(Gain)	22 761 401	-
Interest cost	5 770 529	5 247 285
	29 471 565	**6 086 976**

Long Service Award	2013	2012
Balance at the beginning of the year	14 025 157	12 986 084
Current Service Costs	1 755 789	1 629 177
Contributions paid	(1 496 751)	(1 527 959)
Acturial Loss/(Gain)	(1 796 468)	-
Interest cost	1 032 895	937 855
	13 520 622	**14 025 157**

Net expenses recognised in Statement of Financial Performance - Long service award	2013	2012
Current Service Costs	1 755 789	1 629 177
Contributions paid	(1 496 751)	(1 527 959)

Figures in Rand	2013	2012

18. Employee benefit obligations (continued)

	2013	2012
Acturial Loss/(Gain)	(1 796 468)	-
Interest cost	1 032 895	937 855
	(504 535)	**1 039 073**

The municipality provides certain post retirement medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations the present value of unfunded defined obligation was carried out as at 30 June 2011 by ARCH Actuarial Consulting, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current ervice cost and past service cost were measured using the projected unit credit method. No other post retirement medical benefits are provided by the municipality.

The long service bonus awards are a function of accumulated leave days and is convertible into cash in the year the employee attains the service eligible for an award at 1/250 of annual salary per day.

Assumptions used for valuation:

	2013	2012
Discount rate used	8,70%	8,70%
Health care cost inflation rate	7,31%	7,31%
Average retirement age	63	63
Mortality during employment	85-90	85-90

Withdrawal from service (sample annual rates)	Age	Rate - Female	Rate - Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	0%	0%

19. Non-current provision for landfill site

	2013	2012
Provision for rehabilitation of landfill sites	22 923 190	22 494 322

The landfill site provision is raised for the rehabilitation of the refuse disposal site to its original state once the site has reached the end of its useful life. It is calculated as the present value of the future obligation, discounted at 6%, over a period of 4 years (being the remaining useful life of the site). The future value of the landfill site provision at the end of the site useful life is estimated at R28 939 999. The discounting rate used is the return on long term treasury bonds and further adjusted for municipal specific risks. The effect of discounting over the remaining useful life of the landfill site is estimated at R6 016 809.

The movement in the non-current provision is reconciled as follows:

Provision for rehabilitation of landfill site	2013	2012
Balance at the begining of the year	22 494 322	50 765 425
Adjustment to provision	428 868	(28 271 103)
	22 923 190	**22 494 322**

Notes to the Financial Statements

Figures in Rand	2013	2012

20. Payables from exchange transactions

Trade payables	90 598 545	88 603 278
Retentions	25 833 549	26 773 475
Other creditors	14 981 874	17 969 244
Accrued leave pay	25 750 657	25 663 642
Operating lease payables (if immaterial)	124 047	-
Stale cheques written back	75 946	-
Sundry Creditors	5 727 848	5 100 277
	163 092 466	**164 109 916**

The fair value of trade and other payables approximates their carrying amounts.

Trade and other payables are non-interest-bearing and are normally settled on 30 day terms, except retentions that could be settled after 12 months. Payments received in advance are non-interest bearing and normally settled on 30 day terms. Management policies are in place to ensure that all payables are paid withini a reasonable timeframe - 30 days

21. Consumer deposits

Electricity	10 827 937	9 532 839
Sundry	(890 637)	370 671
Housing rental	37 403	54 521
	9 974 703	**9 958 031**

Guarantees held in lieu of Electricity and Water Deposits.

22. Property rates

Rates received

Actual		
Residential	96 276 760	75 009 596
Commercial	50 564 650	69 590 466
Vacant land	13 427 971	11 049 722
Specialised Non Market	2 255 880	860 706
Agriculture	2 254 372	1 137 297
Communal Land	242 307	111 032
State	174 881	134 181
	165 196 821	**157 893 000**
Total Property rates	165 196 821	157 893 000

Valuations

Residential	9 580 425 780	9 616 291 780
Commercial	3 296 115 600	3 278 512 600
State	92 053 500	196 850 301
Vacant	305 873 100	447 772 200
Specialised non market	1 022 300 000	1 080 822 000
Agriculture	702 104 000	700 401 000
Communal Land	85 025 000	51 156 000
	15 083 896 980	**15 371 805 881**

Figures in Rand	2013	2012

22. Property rates (continued)

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions.

23. Service charges

	2013	2012
Service charges	3 191 372	3 163 766
Sale of electricity	437 310 629	413 616 922
Sale of water	135 209 094	133 831 154
Sewerage and sanitation charges	78 636 682	73 580 734
Refuse removal	64 069 897	59 667 831
	718 417 674	**683 860 407**

24. Government grants and subsidies

	2013	2012
Equitable share	270 475 000	238 727 000
Municipal systems improvement grant	-	656 842
Financial management grant	1 021 987	2 678 351
Skills development grant	1 316 668	1 601 733
Expanded public works programme incentive	4 822 631	159 905
Neighbourhood development partnership	5 220 858	17 969 752
Electrification grant	4 266 690	4 541 818
Disaster relief subsidy	3 836 829	12 949 504
Other government grants and subsidies	3 493 484	2 991 445
Other grants	73 473 245	71 291 141
	367 927 392	**353 567 491**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members All the residents with electricity get a free basic electricity monthly allowance of 50kWh - (2012: 50kWh) which is funded from the grant.

Municipal Systems Improvement Grant	2013	2012
Balance unspent at beginning of year	(1 429 629)	(1 296 471)
Current year receipts	(800 000)	(790 000)
Conditions met - transferred to revenue	-	656 842
	(2 229 629)	**(1 429 629)**

Conditions still to be met - remain liabilities (see note 17)

Municipal Infrastructure Grant	2013	2012
Balance unspent at beginning of year	-	11 482 115
Current year receipts	(90 038 000)	(74 224 000)
Conditions met - transferred to revenue	66 761 160	62 741 885
	(23 276 840)	**-**

Conditions still to be met - remain liabilities (see note 17)

Financial Management Grant	2013	2012
Balance unspent at beginning of year	(703 243)	(1 931 594)
Current year receipts	(1 500 000)	(1 450 000)
Conditions met - transferred to revenue	1 021 987	2 678 351

Figures in Rand	2013	2012

24. Government grants and subsidies (continued)

	(1 181 256)	**(703 243)**

Condotions still to be met - remain liabilities (see note 17)

Skills Development Grant

Balance unspent at beginning of year	-	(1 099 271)
Current year receipts	(1 584 802)	(502 462)
Conditions met - transferred to revenue	1 335 593	1 601 733
	(249 209)	**-**

Conditions still to be met - remain liabilities (see note 17)

Expanded Public Works Programme Incentive

Balance unspent at beginning of year	(2 974 095)	(641 000)
Current year receipts	(1 875 000)	(2 493 000)
Conditions met - transferred to revenue	4 822 631	159 905
	(26 464)	**(2 974 095)**

Conditions still to be met - remain liabilities (see note 17)

Environmental Management Framework

Balance unspent at beginning of year	(1 353 500)	(1 500 000)
Current year receipts	-	(400 000)
Conditions met - transferred to revenue	-	546 500
	(1 353 500)	**(1 353 500)**

Conditions still to be met - remain liabilities (see note 17)

Naighbourhood Development Partnership

Balance unspent at beginning of year	(12 325 792)	(2 689 044)
Current year receipts	(9 000 000)	(27 060 000)
Conditions met - transferred to revenue	5 220 858	17 423 252
	(16 104 934)	**(12 325 792)**

Conditions still to be met - remain liabilities (see note 17)

Electrification Grant

Balance unspent at beginning of year	(4 310 149)	(851 967)
Current year receipts	(10 000 000)	(8 000 000)
Conditions met - transferred to revenue	4 266 690	4 541 818
	(10 043 459)	**(4 310 149)**

Conditions still to be met - remain liabilities (see note 17)

Water services operating & masification subsidies

Balance unspent at beginning of year	(7 032 652)	4 748 091
Current year receipts	(13 130 378)	(20 330 000)
Conditions met - transferred to revenue	6 712 085	8 549 257
	(13 450 945)	**(7 032 652)**

Conditions still to be met - remain liabilities (see note 17)

KwaMathukuza Housing Project

Balance unspent at beginning of year	(13 555 016)	(11 651 898)
Current year receipts	(510 838)	(1 903 117)

Notes to the Financial Statements

Figures in Rand	2013	2012

24. Government grants and subsidies (continued)

	(14 065 854)	**(13 555 015)**

Conditions still to be met - remain liabilities (see note 17)

Construction of Madadeni 4 Subsidy		
Balance unspent at beginning of year	(7 000 000)	(7 000 000)

Conditions still to be met - remain liabilities (see note 17)

JBC Housing Project		
Balance unspent at beginning of year	(4 500 000)	-
Current year receipts	-	(4 500 000)
	(4 500 000)	**(4 500 000)**

Conditions still to be met - remain liabilities (see note 17)

Other Government Grants and Subsidies		
Balance unspent at beginning of year	(23 530 762)	(17 811 401)
Current year receipts	(15 578 294)	(7 711 439)
Conditions met - transferred to revenue	7 598 313	2 991 445
Grants written off	-	(999 367)
	(31 510 743)	**(23 530 762)**

Conditions still to be met - remain liabilities (see note 17)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

25. General expenses

Advertising	1 790 751	1 383 596
Assessment rates & municipal charges	5 339 865	4 115 082
Auditors remuneration	4 158 944	2 533 856
Bank charges	2 345 769	1 820 013
Commission paid	33 745	41 261
Consulting and professional fees	1 372 186	775 240
Entertainment	646 929	566 476
Fines and penalties	203 334	-
Hire	-	8 526
Insurance	3 914 633	2 582 394
Grants expenditure	6 038 919	4 704 578
IT expenses	30 835	2 512 576
Lease rentals on operating lease	12 380 285	8 109 437
Supervision/Dept transport	61 172	375 659
Magazines, books and periodicals	296 671	264 982
Medical expenses	-	9 737
Motor vehicle expenses	7 859 144	2 418 018
Grant donation expenditure	14 929 557	37 096 895
Subsistence and travel	3 393 120	3 054 215
Fuel and oil	315 295	290 821
Postage and courier	2 130 114	1 904 035
Printing and stationery	2 685 919	2 515 462

Figures in Rand	2013	2012

25. General expenses (continued)

Promotions	1 263 245	592 553
Royalties and license fees	11 536	10 891
Workmens' Compensation	2 572 320	-
Subscriptions and membership fees	2 428 105	2 137 792
Telephone and fax	5 584 190	6 503 739
Training	1 671 310	1 529 383
Assets expensed	136 646	280 382
Other expenses	30 627 286	25 130 505
Administration expenses	29 029 495	26 631 200
Material	(53 676)	(185 637)
Protective clothing	2 610 631	2 210 657
Signage	403 835	759 052
Special programmes	2 790 252	2 398 664
Post retirement benefit	28 967 030	7 126 049
Chemicals	245 475	273 241
Loss due to theft	2 847 628	-
Agent fees	2 400 000	-
	183 462 495	**152 481 330**

26. Employee related costs

Basic	144 110 437	134 318 929
Medical aid - company contributions	12 522 206	11 834 457
UIF	1 518 678	1 388 144
Leave pay provision charge	11 137 116	9 879 770
Post-employment benefits - Pension - Defined contribution plan	28 544 810	23 147 648
Travel, motor car, accommodation, subsistence and other allowances	1 511 964	1 262 440
Overtime payments	23 681 437	21 384 722
Long-service awards	432 234	655 051
Car allowance	17 221 834	16 314 876
Housing benefits and allowances	7 101 121	7 057 661
Group insurance	3 374 908	3 357 287
	251 156 745	**230 600 985**

Remuneration of municipal manager

Annual Remuneration	1 533 950	1 329 787

Remuneration of chief finance officer

Annual Remuneration	1 060 292	982 748

Remuneration of executive directors

Annual Remuneration	6 377 301	4 769 083

Annual remuneration		
SED: Technical Services	1 003 660	940 848
Manager: Internal Audit	839 805	771 380
Manager: Legal Services	1 026 105	1 105 854
Chief of Operations	1 000 911	820 549
SED: Corporate Services	1 231 696	979 997
SED: Community Services	1 029 682	150 456
SED: Development and planning	245 442	-
	6 377 301	**4 769 084**

Notes to the Financial Statements

Figures in Rand	2013	2012

27. Remuneration of councillors

Mayor	461 435	440 339
Deputy Mayor	313 819	295 587
Executive Committee Members	2 563 270	2 464 977
Speaker	328 845	310 614
Councillors	6 335 983	5 953 516
Councillors' pension contribution	1 361 884	1 308 933
Councillors Allowances	5 859 504	5 419 222
	17 224 740	**16 193 188**

2013	Mayor	Deputy Mayor	Speaker
Public Office Allowance	461 435	313 819	328 845
Travel Allowance	167 572	134 057	134 057
Cellphone Allowance	19 872	19 872	19 872
Housing Allowance	24 000	24 000	24 000
Reimbursement	29 923	57 011	55 969
Contributions to Medical and Pension Fund	23 918	68 152	53 094
	726 720	**616 911**	**615 837**

2012	Mayor	Deputy Mayor	Speaker
Annual remuneration	440 339	295 587	310 614
Travel Allowances	158 836	127 069	127 069
Cellphone Allowance	18 840	18 672	18 840
Housing Allowance	24 000	24 000	24 000
Reimbursement	23 282	20 755	30 222
Contributions to Medical and Pension Fund	20 851	63 378	52 326
	686 148	**549 461**	**563 071**

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of a Council owned vehicle for official duties.

28. Electricity Distribution Losses

Purchases (KWH)	704 908 108	714 471 783
Sales (KWH)	662 522 083	675 805 610
Loss of Units	42 386 025	38 666 172
% Loss	6	5
Estimated cost per unit - Cents	40	37
Estimated cost of loss	17 044 633	14 189 889

There are two factors that influence Electrical Losses. Technical and Non-Technical Losses .

29. Operating lease

Operating lease payments represent rentals payable by the municipality for office property and equipment. Leases are negotiated for 3 years for the rental of office property and photocopiers whilst the lease term for cellular phones, laptops and ipads are 2 years with no contingent rental payable. Lease rentals for office property escalates at 10% whilst rentals on office equipment does not escalate annually. Lease rentals for office property have been straight-lined.

Operating lease-lessee		
Within one year	2 828 800	2 544 260
In the second to fifth year inclusive	2 922 648	1 682 432

Figures in Rand	2013	2012

29. Operating lease (continued)

	5 751 448	**4 226 692**

30. Rental of facilities and equipment

Premises		
Staff flats	1 661 887	3 317 624
Venue hire	458 260	361 842
Other	1 557 043	2 023 708
	3 677 190	**5 703 174**
Premises	3 677 190	5 703 174
Garages and parking	-	-
Facilities and equipment	-	-

Rental income is derived from the leasing of vacant land, hire of facilities and parking, government subsidised and municipal houses which is levied in advance on a month-to-month basis. Straight lining of lease rentals is therefore not performed.

31. Contracted services

Agents fees	8 569 840	6 940 013
Consultant fees	17 521 248	10 766 093
	26 091 088	**17 706 106**

32. Bulk purchases

Electricity	383 643 232	349 411 144

33. Cash generated from operations

(Deficit) surplus	(46 697 114)	208 546 907
Adjustments for:		
Depreciation and amortisation	255 512 963	219 844 870
Share of losses in associates	113 876 919	112 405 248
Loss on sale of assets	3 834 162	-
Impairment deficit	26 892 887	334 836
Debt impairment	60 161 307	-
Movements in provisions	28 967 030	7 126 049
Landfill site provision adjustment	-	(28 271 103)
Other non-cash items	-	(167 506 385)
Fair value adjustments	-	25 901 407
Changes in working capital:		
Inventories	188 329	(1 118 475)
Receivables from exchange transactions	(3 826 097)	(12 992 865)
Consumer debtors	60 352 733	(151 548 407)
Payables from exchange transactions	(1 017 450)	103 123 570
VAT	(25 735 287)	14 501 988
Unspent conditional grants and receipts	46 281 203	48 404 689
Consumer deposits	16 672	(25 411)
	518 808 257	**378 726 918**

34. Contingencies

As at the end of the financial reporting period the municipality had the following matters outstanding:

Plaintiff: SJ Zulu – Application and Action in the High Court
There is litigation process against the municipality relating to a dispute with Mr SJ Zulu, who is seeking damages of R20 million. The outcome of this matter is pending High Court action.

Plaintiff: BTE Construction CC
BTE Construction CC issued summons against the municipality relating to a dispute for breach of contract. Should BTE Construction CC be successful the municipality will be liable for damages claimed and legal costs amounting to R19 000.

Plaintiff: Francois Stevens
There is litigation process against the municipality relating to a dispute with Mr Francois Stevens, who is seeking damages of R45 000 relating to services rendered to the municipality. The outcome of this matter is currently before the Court and should the Mr Stevens succeed, the municipality will be liable for the damages claimed and legal costs.

Plaintiff: Evnic Data CC
There is litigation process against the municipality relating to a dispute with Evnic Data CC, who is seeking damages of R19 million. In this matter Evnic Data CC is suing the municipality for loss of profit. According to Evnic Data CC, it alleges the irregular awarding of a municipal tender to another bidder by municipal officials. Evnic Data CC avers that, had the bid been fairly evaluated and awarded, Evnic Data CC would have been awarded the tender. Should Evnic Data CC be successful the municipality will be liable for the damages claimed as well as legal costs.

Plaintiff: Rusha Peterson
There is litigation process against the municipality relating to a dispute with Rusha Peterson, who is seeking damages against the municipality amounting to R300 000. In this matter Rusha Peterson alleges that the municipality left storm water drainage pipes in a place that was accessible by public which resulted in the injury of her child. She then avers that the municipality was negligent in this regard. The municipality is being sued for damages as well as for legal costs.

Plaintiff: Singatha Africa Joint Venture
There is litigation process against the municipality relating to a dispute with Singatha Africa Joint Venture, who is seeking damages of R2 455 million relating to a dispute for breach of contract. It alleges that it was engaged by the Newcastle Municipality to perform services as a project manager. Should Singatha be successful the municipality will be liable for damages claimed and legal costs.

Plaintiff: ADZ Construction CC
There is litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking R1 248 million for breach of contract. It alleges that the contract was unlawfully terminated. If successful the municipality will be liable for damages claimed and legal costs.

Plaintiff: Fedcon and Ngwenya
There is litigation process against the municipality relating to a dispute with Fedcon, one of the political parties within the municipality. Fedcon is comprised of two factions, one which has a seat in Council and one which has another outside Council. The faction outside of Council claims to be the rightful political party and have sought to remove the incumbent Fedcon Councillor and replace him with candidate of their choice. Fedcon is also seeking damages of R400 000 in salaries to be paid to the incumbent Councillor to the litigating faction.

35. Prior period errors

Certain items of Property, Plant and Equipment were incorrectly capitalised in prior periods, thus necessitating the retrospective adjustment of accumulated depreciation and carrying value of assets.

The fair value adjustments relating to financial instruments have been reversed.

Interest received was incorrectly capitalised in the prior year.

The correction of the error(s) on a net basis are as follows:

Statement of financial position		**2012**
Receivables from exchange transactions	-	1 694 148

Figures in Rand	2013	2012

35. Prior period errors (continued)

Other financial assets	-	2 280 804
Inventories	-	(51 331)
Consumer debtors	-	36 389 804
Cash and cash equivalents	-	(123 445)
Property, plant and equipment	-	(42 108 012)
Accumulated Surplus	-	16 503 008
Investment in associates	-	21 854 250
Payables from exchange transactions	-	(35 047 298)
Consumer deposits	-	(1 375 799)
Unspent conditional grants and receipts	-	(16 129)
Statement of Financial Performance		
Interest received	-	28 918
Fair value adjustments	-	(18 960 455)

36. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

36. Risk management (continued)

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Based on the various scenarios, the municipality manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the municipality raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the municipality borrowed at fixed rates directly. Under the interest rate swaps, the municipality agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate. No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

37. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

38. Unauthorised expenditure

There were no instances of unauthorised expenditure identified by the municipality during the current financial year.

39. Fruitless and wasteful expenditure

	2013	**2012**
Fruitless and wasteful expenditure - Phelandaba swimming pool	-	1 216 317
Fruitless and wasteful expenditure - Interest and penalties	203 334	-
	203 334	**1 216 317**

Interest and penalty charges levied by South African Revenue Services for the late submission of statutory returns.

For the prior year fruitless and wasteful expenditure, the responsible official had resigned and the service provider was released from the contract with the Municipality.

Notes to the Financial Statements

Figures in Rand	2013	2012

40. Irregular expenditure

	2013	2012
Opening balance	24 966 255	-
Add: Irregular Expenditure - current year	-	24 966 255
Amounts condoned	(542 294)	-
Amounts not condoned	24 607 781	-
	49 031 742	**24 966 255**

Details of irregular expenditure – current year

Below are details of deemed irregular expenditure incurred during the current financial year as a result of bids not being placed on the municipal website for at least seven days as required by the Section 18(a) of the Municipal Supply Chain Management Regulations, 30 May 2005.

Msolwa Trading Enterprise CC	70 500
Bernina	102 100
Northern Natal Catering Equipment	38 447
N.N. Mowerman	49 200
Takenote Trading 61 CC	171 000
Other irregular expenditure condoned	111 047
	542 294

Details of irregular expenditure not condoned - current year

The municipality transacted with suppliers who's spouses were in service of the state or have been in the service of the state in the previous twelve months.

Meissie Shabalala - Legent International Trading Enterprise	803 289
Ajith Harilal - Super Lite Trading Enterprise	16 404
	819 693

Below are details of deemed irregular expenditure which were incurred during the current financial year as a result of payments made by the municipality to suppliers whose contracts have since expired.

Gijima Holdings (Pty) Ltd	284 166
Ithala Properties	212 713
Pryca Properties	12 615
	509 494

Below are instances of irregular expenditure incurred during the current financial year as a result of payments made by the municipality to suppliers for services rendered without following tender process.

BMS Computing	285 278
Steiner Hygiene (Pty) Ltd	236 863
	522 141

40. Irregular expenditure (continued)

Kenyon Security Services and FBL Trading Enterprises were contracted during the 2011/12 financial year to provide armed reaction and guarding services to the Mayor, Deputy Mayor and councillors of the Newcastle Municipality without following due tender process. The contract value over 36 months ending 2015 amounts to:

	2013	2012
Kenyon Security	4 104 000	
FBL Trading Enterprise	6 732 000	
	11 880 282	

	2013	2012
Prepaid electricity theft The municipality was defrauded out of R580 174 during the current financial year as a result of misappropriation of prepaid electricity receipts. This matter has been reported to the SAPS and is under investigation.	580 174	
Alleged irregularities relating to payments of R1 154 607 and R1 112 846 processed by Newcastle Municipality into a bank account which was changed by certain municipal staff.	2 267 454	
Overtime paid The municipality paid overtime amounting to R5 092 117 during the current financial year to municipal officials who earned in excess of R172 000 per annum. This municipality did not apply to the South African Local Government Bargaining Council for exemption from the payment of overtime to employees in terms of the Collective Agreement.	5 092 117	
Overspending on capital commitments	2 936 426	
	24 607 781	

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2013	**2012**
Current year subscription	1 017 544	1 052 642
Amount paid - current year	(1 017 544)	(1 052 642)
	-	-

Audit fees

Current year subscription / fee	3 747 944	1 588 788
Amount paid - current year	(3 747 944)	(1 588 788)
	-	-

PAYE and UIF

Notes to the Financial Statements

Figures in Rand	2013	2012

41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Current year payroll deduction	35 708 752	32 312 516
Amount paid - current year	(32 874 749)	(32 312 516)
	2 834 003	**-**

Pension and Medical Aid Deductions

Current year payroll deductions	41 081 130	60 259 085
Amount paid - current year	(36 724 377)	(60 259 085)
	4 356 753	**-**

VAT

VAT receivable	28 055 748	2 320 461

VAT output payables and VAT input receivables are shown in note 12.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr MV Buhiali	1 105	44 754	45 859
Cllr SSE Buthelezi	1 007	1 031	2 038
Cllr JK Gabuza	736	2 959	3 695
Cllr CN Mkhize	5 273	29 160	34 433
Cllr CN Mkhize	3 108	30 914	34 022
Cllr MS Mlangeni	671	661	1 332
Cllr MG Mlangeni	434	4 036	4 470
Cllr MP Ngobese	1 862	53 622	55 484
Cllr DJZ Nkosi	831	620	1 451
Cllr EM Nyembe	188	633	821
Cllr DO Shabalala	1 240	5 965	7 205
Cllr DE Tshabalala	222	645	867
Cllr EM Zungu	5 218	753	5 971
Cllr MM Zwane	1 275	16 437	17 712
Cllr ME Zwane	1 242	635	1 877
Cllr ME Zwane	1 032	3 890	4 922
Cllr SSE Mbokazi	23 400	249 653	273 053
	48 844	**446 368**	**495 212**

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr MV Buhlali	366	42 971	43 337
Cllr DJZ Nkosi	184	2 086	2 270
Cllr EM Nyembe	179	1 753	1 932
Cllr NP Kunene	820	-	820
Cllr FP Gama	195	422	617
Cllr MS Mlangeni	391	4 410	4 801
Cllr MO Mdlalose	386	1 991	2 377

Notes to the Financial Statements

Figures in Rand		2013	2012

41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Cllr MV Buhlali	428	3 926	4 354
Cllr RN Mdluli	865	730	1 595
Cllr MM Bhekiswayo	694	-	694
Cllr MS Mlangeni	589	4 582	5 171
Cllr ZJ Mbatha	574	1 553	2 127
Cllr SJ Zulu	710	649	1 359
Cllr MS Mlangeni	757	-	757
Cllr SSE Buthelezi	1 009	7 862	8 871
Cllr NE Zwane	970	5 837	6 807
Cllr JK Gabuza	-	3 078	3 078
Cllr LT Ntshangase	1 980	-	1 980
Cllr ME Zwane	1 222	7 630	8 852
Cllr MM Zwane	1 124	14 524	15 648
Cllr MP Ngobese	1 755	53 853	55 608
Cllr DO Shabalala	1 284	8 156	9 440
Cllr CN Mkhize	2 738	30 395	33 133
Cllr TM Zulu	2 859	132	2 991
Cllr CN Mkhize	4 114	24 287	28 401
Cllr EM Zungu	4 716	7 969	12 685
	30 909	**228 796**	**259 705**

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Various items were procured during the year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for the deviations were recorded and reported to the Accounting Officer and Council who considered them and subsequently approved the deviation from supply chain management management regulations.

Deviation from Municipal Supply Chain Management Regulations amounted to R4 026 734 which are made up as follows:

	2013	**2012**
Deviations		
Section 16	506 663	1 214 347
Section 17	1 025 431	475 333
Section 36	2 494 639	3 902 311
	4 026 733	**5 591 991**

43. Commitments

Capital commitments

Approved and contracted for		
Infrastructure Assets	69 099 736	64 583 731
Community Assets	135 182	1 688 843
Land and Buildings	922 357	-
Other Assets	9 877 905	-
	80 035 180	**66 272 574**

Approved but not yet contracted for		
Infrastructure Assets	84 632 592	27 672 753
Community Assets	500 000	3 550 351

Notes to the Financial Statements

Figures in Rand	2013	2012

43. Commitments (continued)

Land and Buildings	-	7 103 555
Other Assets	16 698 096	31 405 615
	101 830 688	**69 732 274**

This expenditure will be financed from		
External Loans	12 675 907	26 306 057
Government Grants	20 990 479	91 670 900
Own Resources	148 209 481	18 027 893
	181 875 867	**136 004 850**

Operating commitments

Operating lease commitments

Due within one year	3 216 378	2 900 456
Due in second to fifth year inclusive	3 481 687	1 917 973
	6 698 065	**4 818 429**

Operating lease payments represent rentals payable by the municipality for office property and equipment.Leases are negotiated for 3 years for the rental of office property and photocopiers whilst the lease term for cellular phones, laptops and ipads are 2 years with no contingent rental payable.

44. Subsequent events

In terms of the intervention instituted by the Provincial Executive of KwaZulu-Natal in terms of Section 139(1)(a) of the Constitution of South Africa, 1996, the Newcastle Municipality with the effect of 01 July 2013, be responsible for the Water Service Authority function previously assumed by the Provincial Executive of KwaZulu-Natal and uThukela Water (Pty) Ltd as the Water Service Provider established by the Umzinyathi District, the Amajuba District and Newcastle Local Municipalities.

The effect of this will mean that the Newcastle Municipality together with the other parent municipalities of uThukela Water (Pty) Ltd shall resume the water retail function and regionalization of the bulk water service functions.

This will be implemented by:
- Establishing a new Water Services Directorate
- Undertake a staff skills audit to align the new water division
- Transferring officials from uThukela Water (Pty) Ltd
- Reconciliation and transfer of employee leave balances that will be effected on transfer of staff
- Developing a water services budget
- Setting up of new cost centres for the new directorate
- Preparation of an asset register detailing reticulation assets to be transferred from uThukela Water (Pty) Ltd
- Generation of a liabilities register to be assumed by Newcastle Municipality
- Developing measures to ensure business continuity
- Develop and map a high level road map for the establishment of the Water Services Provision
- Communicating and consulting with stakeholders
- Implementing a change management process

As at the date of the preparation of the annual financial statements the above implementation plan was still in progress.

Notes to the Financial Statements

Figures in Rand	2013	2012

45. Investment income

Interest earned		
Bank	22 114 961	23 096 908